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INFO RHEHAAA/WHITE HOUSE WASHDC IMMEDIATE
RUCNCLS/ALL SOUTH AND CENTRAL ASIA COLLECTIVE
RHEHNSC/NSC WASHDC
RUCPDOC/DEPT OF COMMERCE WASHDC
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RUEATRS/DEPT OF TREASURY WASHDC
RULSDMK/DEPT OF TRANSPORTATION WASHDC
RHMCSSU/FAA NATIONAL HQ WASHINGTON DC
RUEHRC/DEPT OF AGRICULTURE WASHDC
RUEHG/USMISSION GENEVA 8498
RUEHUL/AMEMBASSY SEOUL 1519
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SENSITIVE
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USDOC FOR ITA/MAC/OSA/LDROKER/ASTERN/KRUDD
DEPT OF ENERGY FOR A/S KHARBERT, TCUTLER, CZAMUDA, RLUHAR
DEPT PASS TO USTR MDELANEY/CLILIENFELD/AADLER
DEPT PASS TO TREASURY FOR OFFICE OF SOUTH ASIA MNUGENT
TREASURY PASS TO FRB SAN FRANCISCO/TERESA CURRAN
USDA PASS FAS/OCRA/RADLER/BEAN/FERUS
EEB/CIP FSAEED, KDUNNE, AGIBBS
EEB/ESC
US MISSION GENEVA FOR PALLGEIER/DSHARK
EMBASSY ABUJA FOR ECON/FAS
EMBASSY SEOUL FOR ECON/FAS

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SUBJECT: New Delhi Weekly Econ Office Highlights for the Week of August 3-7, 2009

REFTEL: A. NEW DELHI 368

B. NEW DELHI 435

11. (U) Below is a compilation of economic highlights from Embassy New Delhi for the week of August 3-7, 2009, including the following:

-- Exports Decline for 9th Straight Month; Imports Decline More
-- Possible Law to Clarify Sector-specific Investment Caps
-- India and South Korea Sign Trade Agreement
-- India Still "Gathering Information" on EU Drug Seizures
-- India and Nigeria Sign Deal on Pharmaceutical Exports

Exports Decline for 9th Straight Month; Imports Decline More

12. (U) India's exports shrunk for the ninth consecutive month in June 2009, falling by 28 percent compared to the same month last year primarily due to the continued slowdown in the United States and the European Union. Sectors most hit by the global slowdown continue to be labor-intensive ones including leather, textiles, handicraft, gems and jewelry. Imports contracted by 29.3 percent led by a 51 percent decline in oil imports, reflecting a slowdown in domestic consumption. With imports declining at a faster rate than exports, the trade deficit narrowed to \$6.2 billion in June 2009 as compared to \$9.1 billion in June 2008. On a cumulative basis, exports in the first quarter of FY 2009-10 (i.e. April 1 to June 30, 2009) were down 31 percent compared to Q1 of FY 2008-09, while imports were down 36.5 percent. The trade deficit for Q1 FY 2009-10 was \$15.5 billion, almost half of the deficit recorded during the same period last year.

Possible Legislation to Clarify Sector-Specific Investment Caps

13. (U) According to media reports, new legislation is being proposed to clarify foreign direct investment (FDI) and sector-specific investment caps. According to the report, the clarification would be implemented through an act of Parliament, instead of tinkering with the investment regime through press notes, executive orders, and other ad hoc measures. (Reftels A and B).

14. (U) Comment: Clarity on the sectoral FDI caps would be welcome; liberalization or elimination of the caps would be even better. At this point, no details have been made public. The report appears to be a continuation of the running debate on the treatment of foreign investment between the Ministry of Finance, the Reserve Bank of India (RBI), and the Ministry of Commerce and Industry. Post will continue to monitor possible investment-related legislation, but given the lack of progress in Parliament on other economic reform laws such as the insurance bill, we are not holding our breath.

India and South Korea Sign Trade Agreement

15. (U) India signed a pact with South Korea on Friday morning that will eliminate duties at a slower pace than the U.S.-South Korea Free Trade Agreement signed in June 2007 (but not yet ratified by Congress), according to media sources. The Comprehensive Economic Partnership Agreement (CEPA) is expected to eliminate 75 percent of India's duties on South Korean imports, while South Korea will cut 93 percent of its duties on Indian products. Bilateral trade between the two countries was \$15.6 billion in 2008, just 2 percent

NEW DELHI 00001658 002 OF 002

of South Korea's total trade and less than one-fifth of U.S-South Korea bilateral trade of \$82.7 billion. The agreement should benefit South Korea's auto parts industry and India's service sector (South Korea has agreed to allow access to Indian IT professionals but not to nurses and doctors), but provide very little market opening in agriculture and forestry. It does not include rice, pork, chicken, most tropical fruits, and other sensitive products. (Comment: The GOI continues to make very slow, incremental gains in market opening via bilateral and regional trade agreements, rather than making progress on a multilateral front. End Comment).

India Still "Gathering Information" on EU Drug Seizures

16. (U) Local media report that the GOI continues to consider approaching the dispute settlement body of the WTO to protest seizures of Indian medicines at various European ports. Although the seizures were carried out on charges of intellectual property rights violations within EU countries, Indian pharmaceutical companies contend that since the drugs were in transit to other markets (primarily in Africa and South America), the shipments were illegally seized. Currently, the GOI is gathering information on the seizures. According to the Indian Pharmaceutical Export Promotion Council (Pharmaexcil), five cases, involving drug-makers Cipla, Dr. Reddy's, Aurobindo, and Ind-Swift, have been brought to the Ministry of Commerce's attention. The Department of Pharmaceuticals is also pushing for the Ministry of Commerce to provide reimbursements to Indian drug companies who now pay additional freight to avoid transshipping Indian pharmaceuticals through the European Union to South America and Africa. (Note: While a potential WTO case has been reported several times by local media, other than comments that the GOI is collecting information, no other statements regarding a pending case have been mentioned by GOI officials. End Note.)

India and Nigeria Sign Deal on Pharmaceutical Exports

17. (U) On August 3, the Department of Pharmaceuticals (part of the Ministry of Commerce) signed an agreement with the government of Nigeria to combat counterfeit drugs in the Nigerian market. As part

of the agreement, Nigeria's National Agency for Food and Drug Administration and Control (NAFDAC) will open offices in India. Nigeria, the ninth biggest export destination for Indian pharmaceutical products, will also collaborate with India to set up a drug-testing center in Nigeria. Both governments will work to encourage Indian drug companies to set up manufacturing units in Nigeria and explore whether or not drug-makers can supply low-cost drugs to the Indian government. (Comment: Last May, Nigerian officials seized fake Chinese anti-malarial drugs carrying a "Made-in-India" tag. India's outreach efforts to Nigeria likely stem from concerns that African countries, which comprise 18 percent of the Indian pharmaceutical market, are beginning to doubt the quality of Indian pharmaceutical goods. End Comment.)

¶8. (U) Visit New Delhi's Classified Website:
<http://www.state.sgov/p/sa/newdelhi>.

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